Testimony of W. Thomas Stephens
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Boise Cascade, L.L.C.
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Chairman Boucher, Mr. Hastert, Chairman Dingell and members of the committee, and my distinguished co-panelists with whom I am appearing today, my name is Tom Stephens and I am the chairman of the board and chief executive officer of Boise Cascade, L.L.C. Boise is a paper and building products manufacturing and distribution company headquartered in Boise, Idaho with approximately 10,000 employees in 60 locations in 24 states and in Canada, the United Kingdom and Brazil. I also serve as a member of the board of directors of the American Forest and Paper Association and Trans-Canada Pipeline and am a trustee of Putnam Funds. I appear today solely in my capacity as CEO of Boise.

I am here to talk to you about how potential climate change legislation may impact Boise Cascade, the competitiveness of U.S. industry and jobs in this country.

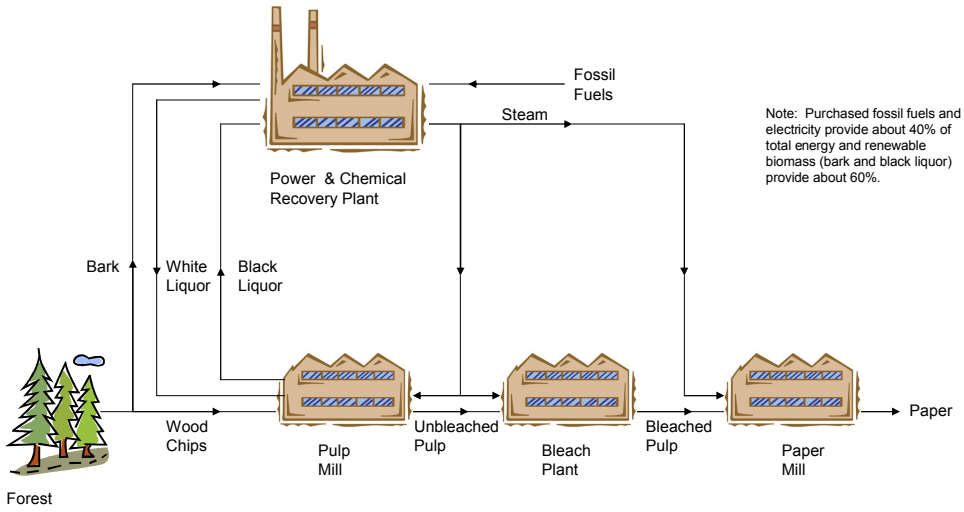
Forest Products Industry – Energy-Efficient and Sustainable

First, I would like to put the forest products industry into perspective. This industry produces products, using energy primarily from the sun, that are durable, renewable, low cost and efficient. Our products are used to house families, schools and businesses, safely package food and a wide-range of other materials and provide a low-cost medium for writing and printing. These products come from renewable resources –

trees - and are recyclable and/or biodegradable. Simply put, this is an industry which is environmentally friendly and sustainable.

The forest products industry is very efficient and one of the largest producers and users of renewable biomass energy in the world. Boise is a proponent of the Sustainable Forestry Initiative®, which endorses forest management practices that ensure all forest values – wildlife habitat, watershed, recreation and timber production – are sustained for the long term. In many areas when we harvest a tree, the largest part of the tree goes to sawmills or plywood plants where the bark is removed and the logs converted into lumber, plywood or engineered wood products. The bark is burned in highly efficient boilers and the steam is used to dry the lumber or the veneer, which minimizes the need for fossil fuels. Even the sawdust produced during lumber milling is used to make particleboard for furniture production.

Next, the residual parts of the log are chipped into small pieces and shipped to a pulp mill to produce wood pulp and eventually paper. During the chemical pulping process, the wood fibers are separated from the lignin, the naturally occurring “glue” which binds fibers together in a tree. The lignin and the chemicals used to extract it are put through a recovery process through which the chemicals are recycled and the lignin is burned in a boiler, providing the mill with a renewable biomass based source of energy.



Bleached Kraft Pulp & Paper Mill – Elementary Flow Schematic

In many cases, mill power boilers burn additional biomass, such as bark. The energy from the boilers is used to operate the pulp mill and to dry the paper. These boilers often are also connected to a steam turbine to co-generate electricity. The result, again, is minimizing the use of fossil fuels. At Boise Cascade, between 60% and 65% of the energy used in our manufacturing processes comes from renewable sources, with the bulk being biomass as I've described. While this may sound like a high rate, it is not unusual for the forest products industry.

In addition to its renewable energy portfolio, the forest products industry supports actively and sustainably managed forests which sequester carbon through nature's process of photosynthesis, combining carbon from the atmosphere with water and sunlight energy and turning them into cellulose while releasing oxygen back into the

atmosphere. And forest products store carbon over the long term – wood installed in homes may last hundreds of years and paper is often archived or recycled. By contrast, manufacturing alternative construction materials is significantly more carbon intensive. Manufacturing many substitute materials takes significant energy and does not typically utilize biomass. Further, these materials are not as effective an insulating material as wood.

While actively managed forest land sequesters carbon, forest land that is not actively managed has contributed to greenhouse gas emissions. Recent large forest fires on federal lands in western states emit very significant amounts of CO_2. In some years in the state of Oregon, these fires have released as much carbon as was emitted for the entire year from burning fossil fuels in the state. The number and intensity of these fires have escalated with the accumulation of fuel load since the federal timber program was reduced. Further, the lack of timber sales and the expense of fire fighting mean there is little funding available for replanting and forest thinning. So the cycle continues. The decisions being made in the courts to stop thinnings and post-fire reforestation are not based in science but rather show the risks of unintended consequences as policy is formulated. As Congress considers legislation to deal with climate change, I strongly urge you to consider the unintended impacts of policy. We've put a lot of people out of work and our continued appetite for forest products in the U.S. coupled with shutting down U.S. production has resulted in growing the industry in places around the world where environmental practices and enforcement are not as rigorous as here in the U.S.

and fires and insects destroy the very forests and the habitats that well intentioned people intended to preserve.

Global Nature and Competitiveness of the Forest Products Industry

The forest products industry is global and trade moves relatively freely. Key drivers of competitiveness are the costs of wood fiber, energy, labor and capital. The industry is highly capital-intensive; for example, a greenfield pulp and paper mill of competitive scale would cost well in excess of one billion U.S. dollars. Pulp and paper mills must operate at very high levels of capacity due to the high fixed-cost component of the cost structure, including the large fixed investment. Because of these characteristics, the relative competitive position of our industry and the jobs it supports will be impacted by what Congress ultimately puts into place on climate change.

Perspective on Climate Change

I will now outline my perspective on climate change. While science continues to evolve, I believe that the weight of currently available scientific evidence indicates that global warming is real; that a build-up in greenhouse gases, principally carbon dioxide, is a significant cause; and that man's actions contribute to this build-up primarily through combustion of fossil fuels and changes in land use, especially conversion of forests to agricultural and other uses.

At Boise, we believe that Congress needs to consider alternatives to address the issue. We support a firm cap on greenhouse gas emissions and a trading mechanism to

facilitate the most efficient reductions in greenhouse gases. We believe that, over time, the cap should be reduced to move the economy to a more net neutral greenhouse gas position. Other alternatives should be considered but whatever is put in place should be economy-wide and based on sound science and should have mechanisms for adjustment as science evolves and unforeseen circumstances develop.

While we believe our trading partners, including developing countries, have a responsibility to reduce their emissions as well, we believe that the U.S. must act. Any climate change legislation should incorporate incentives for our trading partners, including developing countries, to develop their own programs to reduce greenhouse gas emissions. These incentives should include access to U.S. markets, not in the form of duties, but fundamental access. Unlike many environmental impacts, CO_2 emissions do not have a zip code. If all we do with legislation is export the CO_2 production, we will have failed to mitigate climate change and we will have lost jobs in the process.

According to a recently released Sigma Xi report, between 15% and 25% of the increase in atmospheric CO_2 since 1750 has been the result of land-use conversion – primarily the removal of the carbon sink that forests provide due to deforestation in developing areas of the world. In fact, in the U.S., there is more forestland today than there was 100 years ago largely because financial incentives to maintain forests outweigh incentives to convert the land to other uses. The primary current incentive to maintain timberland in forest use is that owners can sell timber to nearby mills, replant the forest and repeat the process indefinitely. In many developing countries, often no

such incentive exists and the result is deforestation and conversion to agricultural use, which pays a better return for a brief period until the land is overgrazed or otherwise wasted through overuse. The argument has been made that eco-tourism could provide income for these forests to ensure their preservation. This is an ideal that has met with only limited success in much of the developing world, where returns from black-market logging and pasturing cattle for a few years far outweigh dollars generated by eco-tourism. Ownership, responsibility and opportunity for a sustained, managed forest need to be part of the engagement with developing countries to turn the land converted from forests back to forests. We need to engage our like-minded trading partners to support and enforce bans on illegal logging much as we brought the ivory trade to a stop. We need to use our trading relationships with countries that do not practice sustainable forestry to ensure they support the maintenance and growth of forests in the developing world.

Boise believes in free trade, but fair trade. Today, the U.S. market is the largest market in the world for goods and services. Our manufacturing jobs have been shifting to other parts of the world. That's because low-cost labor and, in some cases, lower regulatory costs, allow producers in Brazil, China and India to make goods at significantly lower cost than we can in the U.S. Today, China, with few forest resources and little clean energy, has the fastest growing paper industry in the world. Today, China imports logs from Russia and exports paper to the U.S. At the same time, the U.S. has elected to significantly reduce the management of its federal forests for sustainable wood production and has lost tens of thousands of jobs in our forest products sector. To date,

the U.S. has elected to not pass judgment on how other countries regulate their forest products businesses. The US has been guided by the philosophy that these countries can make their own decisions on trade-offs between their environment, the rights of their workers and the desire for economic growth. I'm not here to debate issues where one can argue the impacts are localized. However, greenhouse gases are a different story. This is clearly a global issue and environmental practices in other parts of the world have a clear and direct impact on the U.S. and its citizens. It is likely that U.S. manufacturers will experience increased operating costs and potentially some economic dislocation. However, in the U.S. there will be economic winners as well. If we raise the costs for U.S. producers while overseas producers get a pass, we will have made the U.S. less competitive. Over time, I believe that smart money will find smart people and solutions will be developed; however, if we do not hold our developing trading partners to the same standards, we will ship both the jobs and the greenhouse gas production overseas.

The US has a Responsibility to Act

Climate change is a real problem and as the largest emitter of greenhouse gases, the US has a responsibility to act. As the largest and richest economy in the world, the US has a responsibility to act. As the most innovative economy and society in the world, the US has a responsibility to act. While we need to ensure all of our trading partners, including the developing economies of the world, do their fair share, the US must lead from the moral high ground. We should provide developing countries with technical assistance in the areas of reforestation, energy conservation, renewable energy, low

emitting energy systems and carbon sequestration. In the event our trading partners do not act, I believe that the G8 should, in concert, leverage all tools including market access to ensure these countries act. Frankly, the forecasts I've seen on the negative impacts of climate change are focused more in the developing world than in the developed world. As a result, I expect these countries will see it in their best long-term interest to act. However, in the short term they may need a nudge.

I have great faith in our economy and our country to develop technology to meet this climate challenge. But the technology will develop much faster with financial incentives – that's the way our system works. I also believe that developing countries will be able to "technology skip" much as they have in information transfer and storage and telecommunications. Today China has over 300 million cellular phone subscribers. China went from reading newspapers posted on walls to using the Internet in a very short period of time. They went from hand written paper to the personal computer. They quickly adopted the most efficient technologies. Forty years ago, there was no cellular phone, no Internet, no high-speed trains, very few planted forests and we had not yet landed on the moon – I have faith that in the next 40 years, we will be able to make similar technological leaps if we provide incentives to attract our best and brightest to the challenge. I believe that the U.S. can and will overcome this challenge of rapid climate change, and if we provide the right incentives, we will be able to bring our trading partners, including the developing world, along with us.

Thank you.